Chapter 9

Consumer, Government, and Taxation

Learning Objectives:

At the end of this chapter, the learners will be able to

1. Explain what socio-economic impact study is;
2. Enumerate the benefits of socio-economic impact study;
3. Identify and explain the various socio-economic factors affecting business and industries such as the consumer, government policies, and tax revenues;
4. Evaluate the role of the government in the economy and;
5. Understand the socio-economic impact of business in consumer income and government.

Socio-economic Impact Study

Socio-economic Impact Study is done by a business entity or a company to measure its impact in the economies, environments, and communities in which they operate.

Benefits of Measuring Socio-economic Impacts

1. Obtaining or maintaining a permit to operate the business- it helps the companies show their stakeholders that their activity benefits of the economy and society to operate.
2. Improving the business enabling environment- to show policymakers how their business activities contributes to public policy goals, to develop the mix rules and incentives and etc.
3. Strengthening value chain- to predict the loyalty, performance, stability and capacity for growth and suppliers and others that addresses the opportunities and vulnerabilities.
4. Consumers have limited income- enabling them to develop the new products and service and improving the existing offerings.

Socio-Economic Factors Affecting Business and Industry

The Consumer

A consumer is an individual who buys product or services for personal use. Consumers are the most important beings in economics because it serves as an engine that drives the economy.

4 Basic Assumptions about Consumer Behaviour

1. **Consumers are rational**
   -the consumer are trying their best to get what they want and to understand it. Always decide what the best in themselves.

2. **Consumers desire many goods**
   -the consumer always weighing for the best . They compare the benefits that can be gained.

3. **Consumer have to pay goods**
   -the consumer weigh the cost that they have to pay against the benefits they may receive.

4. **Consumer have limited income**
   -the consumer think rationally to balance everything of what they cost have been affected in each benefits they earn or to get of every decisions.

The Government

Clayton (1995) explains that the economic system of one country is highly complex. It is based primarily on free enterprise and capitalism, but it also includes elements of command and traditional economies. The following are the roles of the government in its economy:

- **Protector** – enforces laws, such as those against false and misleading advertisement, impure food and drugs, environmental hazards and unsafe automobiles. It also enforces laws against abuse of individual freedoms
- **As provider and consumer** – All levels of government provide goods and services for citizens, such as supplies defense, education and public welfare, and other businesses. In the process, government consumes factors of production just like any other form of business.
- **Regulator** – The national government is in charge of preserving competition on the market place.
- **As promoter of national goods** – The government reflects the will of majority of its people.

Socio-economic Impact of Business in Consumer Income

Income - is the amount of money individuals earn from their daily economic activities, be it employment, business or investments.

The availability of disposable income influences spending habits. Costumers are likely to purchase expensive items whenever there is an increase in their disposable incomes. However, when income scarce, costumers tend to restrict their spending to essential items. Income fluctuations as a result of changes in the rates of economic growths.

When the economy is doing well, employees earn pay hikes, businesses post record sales, financial markets thrive, and mutual funds grow. The opposite happens during periods of economic decline. During global economic crisis, businesses recorded reduced sales after credit facilities became scarce and many people lost jobs.

Taxations and Revenues

Taxations and Revenues

Tax comes from the Latin word “Taxo” → “I estimate”.

- A tax is not a voluntary payment or donation, but an enforced contribution, exacted to pursuant to legislative authority.
- Tax defines as pecuniary burden land upon individuals/property owners to support the government, payment exacted by legislative authority. It can be paid through money/labor equivalent.

Brief History of Taxation

In modern times, many governments, especially in advanced industrial on the role of the government, have rapidly expanded their roles and taken new responsibilities. As a result, their need for tax revenue has increased. Through the years, people have frequently protested against tax increase. In these situations, taxpayers have favored keeping services at current levels or reducing theme.

According to Rehnquist (1992), the first known system of taxation was in Ancient Egypt around 3000 BC- 2800 BC in the first dynasty of the Old Kingdom. The earliest and the most widespread form of taxation was the corvée and tithe. In times of war, the people of Athens imposed a tax referred to as eisphora. The Greek were one of the few societies who were able to rescind the tax once the emergency was over. The tax was referred to as metoikion.

The earliest taxes in Rome were customs duties on imports and portoria for exports. **Augustus Caesar** was considered by many to be the most brilliant tax stategist of the Roman Empire. Augustus instituted an inheritance tax to provide retirement funds for the military, (5) percent on all inheritances except gifts to children and spouses. During the time of Julies Caesar, a one (1) percent sales tax was imposed. During the time of Augustus Caesar, the sales tax was four (4) percent for slaves and one (1) percent for everything else.

Taxation in the Philippines

National Internal Revenue Law - the basic source of Philippine tax law. This law confides all tax provision, the latest of which is embodied in Republic Act No. 8424. Amended previous national internal codes, and was approved on December 11, 1997.

National Taxation

1987 Philippine Constitute set limitation on the exercise of the power of tax. The rule of taxation shall be uniform and equitable.

Congress shall evolve a progress system of taxation. All money collected on any tax levied for special purpose shall be treated as special fund and paid out for such purpose only. If the purpose of this special fund has been abandoned or fulfilled, the balance. If any, shall be transferred to the general fund of the government.

- **Congress** - authorize the president to fix within specified limits, and subject to such limitations and restriction as it may impose, tariff rates, import and export quotas etc.
- **President** - have the power to veto any particular item or items in an appropriation, revenue or tariff bill, but the veto should not affect the item or items to which he does not object.
- **Supreme Court** - has the power to revise, reverse, modify or affirm on appeal or certiorari.

Tax Limitations

Tax exemptions are limited to those granted by law. Constitution grants tax exemption on certain entities/institutions such as:

- Charitable Institution, churches, personages, or converts appurtenant thereto, mosques, and nonprofit cemeteries and all lands, buildings, improvements actually, directly and exclusively used for religious, charitable or educational purposes and;

- Non-stock non-profit educational institution used actually, directly and exclusively for educational purposes.

Local Taxation

Constitution that provides local government taxation

Local Government Code- provides that all local government units are granted tax powers as well as other revenue raising powers.

- In local taxation there are no such taxes, fees and charges that shall be imposed without public hearing having been held prior to the enactment of the ordinance. The levy must not be excessive, oppressive, confiscatory or contrary to a declared economic policy.

Bureau of Internal Revenue
- one of the agencies in the Philippines responsible for tax revenues.

Socio-economic Impact of Business in Government and Taxation

Government has given great importance in preventing and alleviating property by implanting fiscal measures which includes applying progressive income tax rates and increasing public spending on various social and community services.

Low Income Household Income cannot reflect poverty situation and their living standard of low income household are effected additionally by the amount of public services and welfare support they receiving.

Upper segment of the Income distribution - are the ones who pay more in taxes that they receive in benefits.

Taxes and Benefit - have the effect of narrowing household income disparity.

Thank You!